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June 19, 1951

Mr. Nitze:

It is unfortunate that the accompanying NSC draft Staff study on Iran has come to S/P during Mr. Villard's absence. I have, however, examined the draft and on the basis of my limited knowledge of the Iranian problem offer the following comment:

1. The situation in Iran (as in many other areas we are endeavoring to withhold from the U.S.S.R.) is difficult to deal with policy-wise because of the lack of internal cohesion there. Even tangible U.S. aid to the nominal state organization in Tehran appears to be ineffectual (as is acknowledged in paragraph 9, page 5, of the draft study) in the face of ancient Persian defects of character and practices and possible Soviet subversive influences.

2. I have doubts about the wisdom of the $25,000,000 grant in aid program cited in paragraph 7, sub-paragraph d, page 5 of the draft. The Iranian Government apparently has been unwilling to take an Export-Import Bank loan of $25,000,000, and is moreover, likely to receive cash payments from the AIOC of $28,000,000 or more if an agreement between the Company and the Government can be reached. Although the economic and social injustices which prevail in Iran undoubtedly are serious and require correction, it is not evident that they can be overcome simply by dollar grants to the political entities that have tolerated and perpetuated those conditions.

The statements recently made to us by Mr. Thornberg seemed to me to imply that under present conditions in Iran money as such would merely batten a limited group and would not fortify the Shah. I likewise inferred from his remarks that what is really required in Iran, and what the Shah wants, is a thorough house-cleaning, which would require legal punitive action against the more notorious political gangsters and the establishment

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of a responsible and cooperative Parliament. Whether we should assume the responsibility for encouraging the Shah to take the steps implicit in such a house-cleaning should be decided only after careful reflection.

3. A considerable part (page 9 onward) of the study deals in one way or another with possible developments in Iran involving military problems. I would venture to suggest, in regard to this section, that the preponderant fact with respect to Iran is its contiguity with the U.S.S.R. and remoteness from the U.K. and the U.S. and their bases of effective power. It would seem to be obvious, moreover, that great importance must be attached to Iran by the U.S.S.R. as an area from which a military threat might develop; as a source of oil; as a cleft between strategic areas of importance to the West which might be exploited; and as a theater in which there might be staged a diversion of the West from its operations in Korea. Until we are in a stronger position in and near Iran than we appear to be now, our policies in that country should be applied with care. In particular, it would seem to be advisable, as suggested in Mr. Villard's memorandum to you a few days ago, to attempt to restrain the British from provoking a crisis over the AIOC problem. And finally, we should avoid commitments, political or military, we cannot honor instantly under any foreseeable circumstances.

Attachment:
Copy 2, 6/16/51 NSC Staff
Study on the Position of
the United States with Respect
to Iran.

S/P:WThurston:vh